Many organisations strongly favour the use of broad-spectrum performance management systems (PMSs) over that of traditional, financially focused systems. This has partially been driven by the popularity of balanced scorecards – a management fad developed over a decade ago. Evidence suggests, for example, that in 2001 balanced scorecards had been adopted by 44 per cent of all organisations – although “balanced scorecard” has become the generic term for a PMS that goes beyond a regular financial measurement system.

Recent research conducted by the Centre for Business Performance at Cranfield School of Management shows that organisations generally implement PMSs in order to:
- Monitor productivity.
- Communicate strategy.
- Reduce costs.
- Review their business strategy.
- Support their reward systems.
- Control operations.

A few organisations suggested that they had implemented PMSs because it had become a legal requirement to report non-financial data. Others said that they needed to have a PMS in order to win customers’ contracts – particularly in fast-moving industries such as telecoms and car manufacturing, where managing the performance of suppliers is crucial. In practice, then, PMS adoption is a combination of both fashion trends and real needs.

Numerous studies have indicated that organisations with integrated and balanced PMSs perform better than those without one. The results of one US survey showed that PMSs, when used as management control tools, increased both sales and profits, while reducing overhead costs by 25 per cent. Another poll found that PMSs improved firms’ share prices. Some researchers uncovered less tangible benefits, such as increased customer or employee satisfaction. Others also revealed that PMSs improved communications with employees and increased their support of strategic objectives.

Despite all this evidence, some organisations do not see the positive effects of PMSs in their accounts. Others suggest that it’s hard to isolate the financial effects of PMSs from those of other management systems. A couple of senior managers from fast-moving industries reported that they thought PMSs might even have a negative effect on financial performance, because running them consumed a lot of resources and time. On the other hand, some managers suggested that PMSs had a beneficial impact on the bottom line because they affected people’s behaviour and led to new practices, instead of focusing purely on the figures.

These studies suggest to us that the effects of PMSs need to be better understood in order to maximise their benefits. In general, organisations should pay more attention to the “internal effects” of performance management because these affect their operations directly. These effects are the engines that drive results – eg, productivity, profitability and reputation. The following case study, based on a series of interviews, illustrates the point.

In 2002 Energy (a fictitious name for a major European electricity company) was born from a merger of local firms with different operating systems and cultural backgrounds. It became a strategic business unit of a large multinational enterprise with a turnover of more than £3.6bn. It generated around seven per cent of the UK’s electricity and employed 11,300 people.

Operating in a highly controlled marketplace, Energy found it hard to differentiate itself from other suppliers. Since the industry regulators set its incomes and prices, it could create value only by optimising its operations.

Energy decided to implement its present PMS because it was under a lot of pressure to:
- Integrate as one company.
- Establish the necessary focus.
- Achieve the common enterprise goals.
- Meet the standards of customer service it had drawn from the regulatory stipulations.

It was also important for all employees to understand the company’s strategy and their role in the overall campaign for success. This was a chance to reinvent the organisation.

Since 2002 Energy has implemented its PMS at four levels: executive, business unit, team and individual. All levels have standard processes, tools and practices to help them design, implement and review their scorecards and strategy maps. The
strategy map at executive level captures the firm’s ambitions and its corporate and regulatory objectives. It is the reference point for the development of further maps and scorecards at lower levels. Energy now uses five main performance reviews based on the scorecard: strategy meetings, quarterly meetings, regional meetings, team briefings and one-to-one sessions.

Energy’s PMS gave rise to a mix of positive and negative effects (see panels). The company considered the main benefit to be that the new system focused employees’ attention on issues that were important to the business by linking its key objectives to their jobs and continuous reviews. Energy also reported that customer satisfaction improved as a result of its adoption of the PMS. In this kind of industry, customers usually contact the company only when they have problems with their power supply or electricity bills. They seldom ring to say “thank you for today’s light”. Even so, the number of commendation letters increased and the number of complaints decreased after the firm implemented the system. An increase in positive feedback from a later customer satisfaction survey underlined these findings.

One of the less visible, but nevertheless powerful, benefits has been the change in employees’ behaviour. The PMS has increased the transparency of information, improved horizontal and vertical co-operation and encouraged friendly competition between teams. As a result, Energy has moved from a reactive and command-and-control culture to a more open, proactive one. The company is now focused on making continuous improvements in productivity and customer satisfaction.

The most significant disadvantage of Energy’s PMS was that some people found it too time-consuming to operate, especially during its implementation, because they were uncertain about its benefits at that stage. They were unaccustomed to the process, so everything they had to do was new, hard to remember and more work. Some of the measures were also seen as overcomplicated and hard to manage, which made people lose interest in them. Energy’s experience shows that 12 to 20 simple measures should keep people focused on the key business issues.

Employees also thought that “misleading prioritisation” was one of their PMS’s main drawbacks. They reported instances where the system could easily divert time, effort and resources away from vital measures and towards less important ones.

At the strategic level, some senior managers found that the PMS could be mechanistic, thereby limiting their freedom to manage intuitively. At the tactical level, too, the performance review process was seen as quite monotonous. This meant that managers had to keep refreshing the way in which performance was reviewed to retain people’s interest in the process. The leadership skills of local managers, therefore, played a key role in the success of the system.

At the end of the case study, we asked 36 managers at Energy whether or not they would implement another PMS if they had the chance to do so again. All of them said without hesitation that they would implement one again. Why? Generally, they pointed out that the system helped people to focus on key business issues and also provided them with a different way to operate. Their overriding view was that the effort and resources that Energy had invested in enhanced performance measurement and management systems had provided a real and substantial return over time.

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